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Morehouse General Hospital

Year ended May 31, 1996 and
the five-month period ended May 31, 1995

Audited Financial Statements

Schedule of Per Diem Amounts Paid to the Board of Commissioners

Report of Independent Auditors on the Internal Control Structure

Letter of Recommendations

Report of Independent Auditors on Compliance With Laws and Regulations

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

Release Date Feb 13 1997

Report of Independent Auditors

The Board of Commissioners
Morehouse Parish Hospital Service District

We have audited the accompanying balance sheets of Morehouse Parish Hospital Service District (Morehouse General Hospital) as of May 31, 1996 and 1995, and the related statements of revenue, expenses, and fund balance and cash flows for the year ended May 31, 1996, and the five-month period ended May 31, 1995. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehouse General Hospital at May 31, 1996 and 1995, the results of its operations and its cash flows for the year ended May 31, 1996, and the five-month period ended May 31, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP

July 26, 1996

Morehouse General Hospital

Financial Statements

Year ended May 31, 1996 and the five-month period ended May 31, 1995

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Financial Statements

Morehouse General Hospital

*Year ended May 31, 1996 and
the five-month period ended May 31, 1995*

Morehouse General Hospital

Balance Sheets

	May 31	
	1996	1995
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,125,353	\$ 1,169,479
Patient accounts receivable, less allowances for uncollectible accounts of \$1,613,715 in 1996 and \$1,807,237 in 1995	5,305,450	3,584,250
Settlements due from Medicaid intermediary	77,941	310,677
Inventories	824,843	772,001
Prepaid and other assets	277,171	232,164
Total current assets	8,610,758	6,068,571
Assets whose use is limited	2,220,094	1,813,830
Other assets:		
Unamortized bond issuance costs	15,915	18,581
Amounts due from physicians	322,524	575,008
Property, plant, and equipment:		
Land	193,805	193,805
Buildings	8,847,021	8,476,327
Equipment	16,425,526	15,203,153
	25,466,352	23,873,285
Less accumulated depreciation	15,646,391	13,896,654
	9,819,961	9,976,631
Total assets	\$20,989,252	\$18,452,621

	May 31	
	1996	1995
Liabilities and fund balance		
Current liabilities:		
Trade accounts payable	\$ 481,044	\$ 632,283
Employee compensation and payroll taxes	937,198	497,379
Settlements due to Medicare intermediary	607,232	268,798
Other accrued liabilities	314,645	572,867
Current portion of capital lease obligations	707,394	658,218
Current portion of long-term debt	151,260	151,260
Total current liabilities	<u>3,198,773</u>	<u>2,780,805</u>
Capital lease obligations, less current portion	1,704,687	1,596,264
Long-term debt, less current portion	63,025	214,286
Total liabilities	<u>4,966,485</u>	<u>4,591,355</u>
Fund balance	16,022,767	13,861,266
Total liabilities and fund balance	<u><u>\$20,989,252</u></u>	<u><u>\$18,452,621</u></u>

See accompanying notes.

Morehouse General Hospital

Statements of Revenue, Expenses, and Fund Balance

	Year ended May 31 1996	Five-month period ended May 31 1995
Net patient service revenue	\$26,464,193	\$ 8,411,500
Other revenue	796,525	207,040
Total revenue	<u>27,260,718</u>	<u>8,618,540</u>
Expenses:		
Routine services	4,760,570	1,142,314
Ancillary services	9,484,280	3,456,110
General services	2,270,873	795,233
Fiscal and administrative services	5,013,486	1,834,309
Depreciation and amortization	1,855,600	736,588
Provision for bad debts	1,494,447	555,657
Interest	215,099	85,904
Total expenses	<u>25,094,355</u>	<u>8,606,115</u>
Revenue in excess of expenses	2,166,363	12,425
Fund balance at beginning of period	13,861,266	13,785,865
Net unrealized gain (loss) on marketable securities	(4,862)	62,976
Fund balance at end of period	<u>\$16,022,767</u>	<u>\$13,861,266</u>

See accompanying notes.

Morehouse General Hospital

Statements of Cash Flows

	Year ended May 31 1996	Five-month period ended May 31 1995
Operating activities and gains and losses		
Revenue in excess of expenses	\$ 2,166,363	\$ 12,425
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities and gains and losses:		
Depreciation and amortization	1,855,600	736,588
Interest expense	215,099	85,904
Investment income	(144,658)	(20,211)
Provision for uncollectible physician receivables	165,326	66,240
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,721,200)	719,405
Inventories, prepaid, and other assets	(97,849)	92,289
Trade accounts payable	(151,239)	(597,799)
Employee compensation, payroll taxes, and other accrued liabilities	181,597	(58,019)
Settlements due to/from health insurance programs	571,170	312,421
Net cash provided by operating activities and gains and losses	3,040,209	1,349,243
Capital and related financing activities		
Purchases of land, buildings, and equipment	(617,006)	(265,772)
Payments of capital lease obligations	(818,462)	(304,025)
Payments of long-term debt	(151,261)	(63,025)
Interest expense	(215,099)	(85,904)
Net cash used in capital and related financing activities	(1,801,828)	(718,726)
Investing activities		
Investment income	144,658	20,211
(Increase) decrease in assets whose use is limited	(406,264)	392,494
Advances to physicians	(20,901)	(26,779)
Net cash (used in) provided by investing activities	(282,507)	385,926
Net increase in cash and cash equivalents	955,874	1,016,443
Cash and cash equivalents at beginning of period	1,169,479	153,036
Cash and cash equivalents at end of period	\$ 2,125,353	\$ 1,169,479

See accompanying notes.

Morehouse General Hospital

Notes to Financial Statements

May 31, 1996

1. Accounting Policies

Description of Business

Morehouse Parish Hospital Service District (District), doing business as Morehouse General Hospital (Hospital), was organized on December 17, 1982 under powers granted to parish police juries by the State of Louisiana. The geographical boundaries of the District coincide with those of Morehouse Parish. All corporate powers are vested in a board of commissioners appointed by the Morehouse Parish Police Jury. The District is exempt from income taxes as a political subdivision of the State of Louisiana under Section 115 of the Internal Revenue Code. The District is also exempt from federal income tax under Section 501(a) as a hospital organization described in Section 501(c)(3). The federal income tax exemptions also extend to state income taxes.

Net Patient Service Revenue and Related Receivables

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable for which the Hospital receives payment under contractual arrangements are stated at the estimated net amounts from such payors, which are generally less than established billing rates.

Charity Care

The Hospital provides care without charge, or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue.

Medicare and Medicaid Programs

Medicare

Inpatient acute care services and defined capital cost related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a

Morehouse General Hospital

Notes to Financial Statements (continued)

1. Accounting Policies (continued)

cost reimbursement methodology. The Hospital is reimbursed under this methodology using an estimated rate with final settlement determined after submission of annual reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 1993.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid on a per diem basis. Medicaid outpatient beneficiaries are reimbursed under a cost reimbursement methodology. For outpatients, the Hospital is reimbursed a preliminary rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 1993.

Inventories

Inventories are valued at the latest invoice price which approximates the lower of cost (first-in, first-out method) or market.

Property, Plant, and Equipment

The Hospital records all property, plant, and equipment acquisitions at cost, except for assets donated to the Hospital. Donated assets are recorded at appraised value at the date of donation. The Hospital provides for depreciation of its plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives.

Assets held under capital lease obligations are included in equipment. These assets have been recorded at the present value of the minimum lease payments which approximated the fair market value of the leased assets (see Note 5). Amortization of leased assets is provided for using the straight-line method over the term of the related lease and is included in depreciation and amortization expense.

Morehouse General Hospital

Notes to Financial Statements (continued)

1. Accounting Policies (continued)

Investments and Investment Income

The Hospital's mutual fund investment, included in assets whose use is limited, is carried at the lower of cost or market value at the balance sheet date. Net unrealized gains and losses on noncurrent marketable securities, other than permanent declines, are recorded in fund balance. Investment income from all investments is reported as other revenue.

Cash Equivalents

The Hospital considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Cash and Investments

Statutes authorize the Hospital to invest in United States government obligations, certificates of deposit of national banks located in Louisiana or banks organized under the laws of Louisiana, any federally insured investment, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories of Standard & Poor's Corporation or Moody's Investors Services, or in mutual or trust institutions which are registered with the Securities Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940 and which have underlying investments consisting solely of securities of the United States government or its agencies.

The Hospital's bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and assets whose use is limited. At May 31, 1996, the Hospital's deposits were fully insured or collateralized with securities held by the agent of the pledging banks in the Hospital's name.

In addition to the bank deposits held, the Hospital had invested \$1,312,114 and \$1,253,435 at May 31, 1996 and 1995, respectively, in a mutual fund whose underlying investments consist solely of securities of the United States government or its agencies (see Note 3). The market value of the mutual fund was \$1,257,285 and \$1,203,468 at May 31, 1996 and 1995, respectively. The Hospital recorded the change in the valuation reserve as a net unrealized loss of \$4,682 for the year ended May 31, 1996 and a net unrealized gain of \$62,976 for the five months ended May 31, 1995.

Morehouse General Hospital

Notes to Financial Statements (continued)

3. Assets Whose Use Is Limited

The Hospital's board of commissioners has designated certain assets to be used for future plant and equipment additions and replacement and to collateralize the letter of credit agreement. The composition of assets whose use is limited is set forth in the following table:

	May 31	
	1996	1995
Savings account	\$ 59,370	\$ 74,813
Certificates of deposit	898,577	535,549
Mutual fund investment, net of valuation allowance of \$54,829 in 1996 and \$49,967 in 1995	1,262,147	1,203,468
	<u>\$2,220,094</u>	<u>\$1,813,830</u>

The letter of credit agreement is collateralized by \$1,081,000 of the mutual fund investment at both May 31, 1996 and 1995.

4. Employee Retirement Plan

The Hospital sponsors a noncontributory, defined-contribution retirement plan, which covers substantially all full-time employees after they have met certain eligibility requirements. Under the provisions of the plan document, the Hospital is required to contribute 10% of the eligible employee's salary. The plan provides for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment. The unvested portion of an account of an employee who terminates employment before becoming fully vested is used to reduce the Hospital's current year contribution requirement. For the year ended May 31, 1996 and the five-month period ended May 31, 1995, the contribution requirements were \$810,146 and \$298,506, respectively.

The Hospital has an additional retirement plan which covers all employees not covered under the above plan. Under the provisions of the plan, the Hospital is required to contribute 6.05% of the participating employee's salary. The employee becomes partially vested after three years of continuous employment and fully vested after seven years of

Morehouse General Hospital

Notes to Financial Statements (continued)

4. Employee Retirement Plan (continued)

continuous employment. For the year ended May 31, 1996 and the five-month period ended May 31, 1995, the contribution requirements were \$91,207 and \$17,449, respectively.

Contributions made during the periods for both plans discussed above were \$723,799 and \$369,825 in 1996 and 1995, respectively. The Hospital's unfunded contribution requirement related to both plans of \$123,825 and \$10,299 at May 31, 1996 and 1995, respectively, is included in other accrued liabilities on the balance sheet. Total payroll for all employees was \$9,688,183 and \$3,570,208 for the year ended May 31, 1996 and the five-month period ended May 31, 1995, respectively. All employees of the Hospital are covered by one of the two plans discussed above.

The Hospital established the Morehouse General Hospital Tax Deferred Savings Plan. This plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code, covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan agreement. The participants vest 100% immediately in their contributions and investment earnings of the plan. The plan agreement allows discretionary employer contributions to be made to the plan. No employer contributions were made during the year ended May 31, 1996 and the five-month period ended May 31, 1995.

Retirement expense net of forfeitures related to the above plans included in fiscal and administrative services on the statements of revenue, expenses, and fund balance was \$846,449 and \$283,814 for the year ended May 31, 1996 and the five-month period ended May 31, 1995, respectively.

5. Leases

The Hospital has entered into several capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay a monthly rental payment over the primary term of the leases, which range from five to seven years.

Morehouse General Hospital

Notes to Financial Statements (continued)

5. Leases (continued)

Future minimum lease payments, by year and in the aggregate, under capital leases consisted of the following at May 31, 1996:

Fiscal year ending May 31	
1997	\$ 867,298
1998	689,363
1999	524,521
2000	505,715
2001	195,003
Total minimum lease payments	<u>2,781,900</u>
Amount representing interest (ranging from 4.89% to 14.44%)	<u>369,819</u>
Present value of net minimum lease payments (including \$707,394 classified as current)	<u>\$2,412,081</u>

The cost of leased assets included in equipment totaled \$5,014,656 and \$4,235,975 and accumulated amortization was \$2,747,235 and \$2,024,665 at May 31, 1996 and 1995, respectively. The equipment collateralizes the capital lease obligations.

During the year ended May 31, 1996 and the five-month period ended May 31, 1995, the Hospital entered into capital leases totaling \$976,061 and \$125,140, respectively.

6. Malpractice Insurance

During the ordinary course of operations, the Hospital has been named a defendant in lawsuits alleging medical malpractice. The Hospital is insured for malpractice insurance coverage on a claims-made basis for individual claims up to \$100,000. For individual malpractice claims in excess of \$100,000, the Hospital participates in the State of Louisiana Patient Compensation Fund. This fund provides malpractice insurance coverage on a claims-made basis for claims up to the statutory maximum exposure of \$500,000, which currently exists under Louisiana law, plus interest and future medical costs. The Hospital has purchased additional malpractice insurance providing coverage up to \$900,000 in the aggregate. The Hospital has renewed its existing malpractice insurance through October 31, 1996.

Morehouse General Hospital

Per Diem Amounts Paid to the Board of Commissioners

For the year ended May 31, 1996
(Unaudited)

<u>Board Members</u>	<u>Amount Paid</u>
Charles Arant	\$ 480
Dr. Carter Cox	480
Leonard Posey	440
Nancy Sawyer	360
John Michael Yeldell	480
	<u>\$ 2,240</u>

(Note: Board members are paid a per diem of \$40 for each meeting attended up to a maximum of 12 paid meetings in a year).

Report of Independent Auditors on the Internal Control Structure

The Board of Commissioners
Morehouse Parish Hospital Service District

We have audited the financial statements of Morehouse Parish Hospital Service District (Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 1996, and have issued our report thereon dated July 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Hospital is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Hospital for the year ended May 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all materials in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and/or its operation that we have reported to the board of commissioners of the District in a separate letter dated July 26, 1996.

This report is intended for the information of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

July 26, 1996

The Board of Commissioners
Morehouse Parish Hospital Service District

In planning and performing our audit of the financial statements of the Morehouse Parish Hospital Service District (Morehouse General Hospital) (the Hospital) for the year ended May 31, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

The following observations and suggestions in procedures and controls at the Hospital have been included for your consideration.

Operating Results

Hospital operating results improved significantly in fiscal 1996 as compared with both the five-month period ended May 31, 1995, and the year ended December 31, 1994. While a variety of factors influenced this turnaround, operations were positively impacted by the opening of the geriatric psychiatry unit and the skilled nursing unit. These programs not only provided enhanced services to the residents of Morehouse Parish, they enabled the Hospital to reduce costs by treating patients at adjusted levels of staffing when appropriate. We commend Management and the Board for their efforts and the positive results achieved in fiscal 1996.

Pressure by governmental payors combined with increased movement toward managed care in both the private and public sectors should continue to assault the Hospital's revenue stream in fiscal 1997 and beyond. We urge the Board and Management to

continue their efforts to innovatively provide quality health care in the most efficient and effective manner possible.

Enhanced Third-Party Accounting

The Hospital currently accounts for differences between standard charges and expected interim payments at the time of billing. Differences between interim payments and final reimbursement on cost-based programs are generally accounted for annually, concurrent with the preparation of the Hospital's Medicare and Medicaid cost reports. In order to improve the accuracy of interim financial reporting and reduce the possibility of surprises at year end, we recommend the Hospital enhance its procedures for third-party accounting through a combination of interim cost report preparation and additional settlement analysis performed on a quarterly basis.

* * * * *

We would like to express our appreciation to the management and staff for their assistance during our audit. We will be pleased to discuss the above comments or other items at your convenience and are available to provide any assistance needed in the development and implementation of any actions which you deem appropriate.

This report is intended solely for the use of management.

Ernst + Young LLP

July 26, 1996

Report of Independent Auditors on Compliance With Laws and Regulations

The Board of Commissioners
Morehouse Parish Hospital Service District

We have audited the financial statements of Morehouse Parish Hospital Service District (Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 1996, and have issued our report thereon dated July 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Hospital is the responsibility of the Hospital's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The Hospital has advised us that it has not received any grants; accordingly, no procedures were applied by us with respect to grants.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

July 26, 1996